

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 NRC-05 SAS-02
/137 W

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R 241129Z AUG 78
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC 9962

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E.O.11652:NA
TAGS: ENRG, EIND, TH
SUBJ: NATURAL GAS NEGOTIATIONS STATUS REPORT

REF: BANGKOK 20172

1. RTG MINISTER OF INDUSTRY KASEM CHATIKAWANIT AND UNION OIL COMPANY VICE PRESIDENT BILL GREENWALT SIGNED AGREEMENT ON AUGUST 17 EXTENDING UNION OIL'S CONCESSION FOR BLOCKS 12 AND 13 IN GULF OF THAILAND UNTIL APRIL 23, 1982. THIS AGREEMENT IS IN ADDITION TO ONE SIGNED LAST MONTH BY SAME PARTIES EXTENDING UNION OIL'S CONCESSIONS FOR BLOCKS 10 AND 11 AND SUCCESSFULLY COMPLETES UNION OIL'S EFFORTS TO EXTEND ALL ITS EXISTING CONCESSIONS IN THAILAND.

2. AS FOR RTG-UNION NATURAL GAS PRICING AGREEMENT, KASEM TOLD AMBASSADOR ON AUGUST 22 THAT HE EXPECTS SIGNING OF AGREEMENT TO TAKE PLACE IN MIDDLE OF SEPTEMBER.

3. UNION OIL VICE PRESIDENT GREENWALT CONFIRMS THAT ALMOST ALL DETAILS OF PRICING AGREEMENT HAVE BEEN WORKED OUT
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AND HE ALSO EXPECTS SIGNING IN MID-SEPTEMBER. ACCORDING TO GREENWALT, AGREEMENT WILL, HOWEVER, CONTAIN ONE IMPORTANT "CAVEAT." IT WILL BE CONTINGENT UPON FAVORABLE RULING BY UNITED STATES INTERNAL REVENUE SERVICE ON UNION'S FUTURE REQUEST FOR RELIEF ON DOUBLE TAXATION. AS GREENWALT DESCRIBES SITUATION, U.S. TAX LAWS ALLOW TAX CREDIT FOR TAXES PAID TO FOREIGN

GOVERNMENT PROVIDED TAX LAWS OF THAT COUNTRY ARE GENERALLY THE SAME AS THOSE IN THE UNITED STATES. RTG HAS BEEN VERY FORTHCOMING IN AGREEING TO MODIFY THAI TAX PROVISIONS TO MEET IRS REQUIREMENTS BUT IS UNWILLING TO CHANGE ONE IMPORTANT PROVISION, I.E., "CONSOLIDATION OF TAX LIABILITY," BECAUSE DOING SO WOULD HAVE FAR-REACHING IMPACT ON ENTIRE THAI TAX STRUCTURE.

4. GREENWALT SAYS UNION WILL SUBMIT TO RTG IN NEXT FEW DAYS "FINAL DRAFT" OF TAX AGREEMENT, WHICH HE BELIEVES THAI WILL APPROVE. SINCE THAI PETROLEUM LAW PROVIDES THAT RTG MAY NOT UNILATERALLY CHANGE TERMS UNDER WHICH CONCESSIONAIRES OPERATE, AGREEMENT MUST BE SUBMITTED TO OTHER CONCESSIONAIRES FOR CONCURRENCE BEFORE RTG CAN FORMALLY APPROVE IT. GREENWALT IS OPTIMISTIC THAT RTG APPROVAL WILL TAKE PLACE EXPEDITIOUSLY, THEREBY PAVING WAY FOR UNION TO SUBMIT PETITION FOR TAX RELIEF TO IRS IN ABOUT 30 DAYS TIME.

5. WHILE UNION'S NEGOTIATIONS APPEAR TO BE ON TRACK AND MOVING, NEGOTIATIONS BETWEEN TEXAS-PACIFIC INTERNATIONAL AND RTG ON A PRICE AGREEMENT AND EXTENSION OF TEXAS PACIFIC'S CONCESSIONS ARE STILL IN EARLY STAGES. TEXAS PACIFIC SENIOR VICE PRESIDENT GEORGE A MC COY TOLD AMBASSADOR ON AUGUST 22 THAT DURING MEETING ON JULY 26 WITH FIVE-MAN SUBCOMMITTEE OF RTG PETROLEUM LIMITED OFFICIAL USE

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COMMITTEE, BOTH SIDES AGREED THAT FURTHER NEGOTIATIONS ON RTG-TP PRICING AGREEMENT MUST AWAIT COMPLETION OF COST STUDY ON TEXAS PACIFIC'S CONCESSION CURRENTLY BEING CONDUCTED AT RTG REQUEST BY DE GOLYER AND MAC NAUGHTON. MC COY UNDERSTANDS THAT STUDY WILL BE READY IN MID-OCTOBER AND THINKS THAT RTG WILL REQUIRE ADDITIONAL MONTH TO ANALYZE RESULTS BEFORE RESUMING SERIOUS PRICE NEGOTIATIONS. MC COY SPECULATED THAT PARAMETERS FOR RTG-TEXAS PACIFIC PRICE AGREEMENT WILL BE MORE OR LESS SET BY RTG-UNION PRICE AGREEMENT AND RESULTS OF DE GOLYER AND MAC NAUGHTON STUDY. HE SAID ONE OF TEXAS PACIFIC'S PARTNERS IN SEVERAL OF THE CONCESSIONS, SUPERIOR OIL, IS HOLDING OUT FOR SUBSTANTIALLY HIGHER RATE OF RETURN ON INVESTMENT THAN RTG HAS GRANTED UNION. AS TEXAS PACIFIC AND PARTNERS ARE NEGOTIATING ON BASIS OF UNANIMOUS AGREEMENT, MC COY FORESAW PROSPECT FOR PROTRACTED NEGOTIATIONS NOT ONLY WITH RTG BUT WITH TEXAS PACIFIC PARTNERS AS WELL. HE THOUGHT RTG-UNION AGREEMENT WOULD TAKE POLITICAL PRESSURE OFF PETROLEUM COMMITTEE AND GIVE COMMITTEE GREATER LEEWAY TO DRIVE HARD DEAL WITH TEXAS PACIFIC.

6. MC COY SAID SUBCOMMITTEE OF PETROLEUM COMMITTEE PRO-

POSED THAT TEXAS PACIFIC DEMONSTRATE GOOD FAITH BY UNDERTAKING TO DRILL TWO MORE EXPLORATORY WELLS PRIOR TO REACHING FORMAL AGREEMENT ON EXTENSION OF CONCESSIONS. ACCORDING TO MC COY, TEXAS-PACIFIC TAKES POSITION THAT IT HAS FULFILLED TERMS OF PRIOR CONCESSION AGREEMENT AND AUTOMATICALLY QUALIFIES UNDER THOSE TERMS FOR FURTHER EXTENSION. NEVERTHELESS IN ORDER TO PROTECT TEXAS-PACIFIC'S INTERESTS, MC COY AGREED TO TRY TO MEET SUB-COMMITTEE'S REQUEST. HOWEVER, BEFORE ARRANGEMENTS COULD BE

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FINALIZED MC COY MET WITH MINISTER KASEM WHO SAW NO URGENCY OVER RESUMPTION OF TEXAS PACIFIC EXPLORATORY PROGRAM AND INDICATED ADDITIONAL DRILLING NOT REALLY NECESSARY PRIOR TO RESUMPTION OF PRICE NEGOTIATIONS. THIS UNDERSTANDABLY LEFT MC COY IN STATE OF CONFUSION AND HE IS NOW SEEKING TO OBTAIN LETTER OF UNDERSTANDING FROM KASEM TO PROTECT TEXAS PACIFIC'S LEGAL POSITION.

7. MC COY PHONED EMBOFF AFTERNOON AUGUST 24 TO SAY THAT BEFORE DEPARTING FOR STATES ON ESSO-SPONSORED STUDY TOUR, KASEM INDICATED WHILE HE DID NOT BELIEVE ADDITIONAL DRILLING ESSENTIAL PRIOR TO CONCLUSION OF PRICING NEGOTIATIONS, IF RTG PETROLEUM COMMITTEE PREFERRED ADDITIONAL DRILLING NOW, IT MIGHT BE PREFERABLE TO MOVE AHEAD AS THIS WOULD SPEED UP THE PROJECT. MC COY REPORTS COMPANY HAS AN OPTION ON A DRILLING RIG WHICH EXPIRES IN FOUR DAYS, SO IF LETTER OF UNDERSTANDING IS RECEIVED FROM PETROLEUM COMMITTEE, COMPANY WILL SIGN CONTRACT FOR RIG AND MOVE AHEAD WITH EXPLORATORY

DRILLING PROGRAM. ABRAMOWITZ

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